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Period ended July 31, 2003

Quarterly report

Transat A.T. inc.

www.transat.com

Distribution and travel agencies

- CONSULTOUR
- EXIT TRAVEL
- ANYWAY
- CLUB VOYAGES (FRANCE)

Outgoing tour operators

- AIR TRANSAT HOLIDAYS
- KILOMÈTRE VOYAGES (A division of DMC Transat)
- RÊVATOURS
- WORLD OF VACATIONS/NOLITOUR
- BROK'AIR
- VACANCES AIR TRANSAT (FRANCE)
- LOOK VOYAGES (99.2% interest)

Incoming tour operators
and services at travel destinations

- AIR TRANSAT HOLIDAYS USA
- DMC TRANSAT (71.5% interest)
- JONVIEW CANADA (35.8% interest)
- TRAFIC TOURS (40% interest)
- TOURGREECE (40% interest by Look Voyages)

Air transportation

- AIR TRANSAT
- HANDLEX
- STAR AIRLINES (44.3% interest by Look Voyages)

North America

Europe

Transat A.T. Inc. is an integrated company specializing in the organization, marketing and distribution of holiday travel. The core of its business consists of tour operators in Canada and France. Transat is also involved in air transportation and value-added services at travel destinations. Finally, Transat has secured a dynamic presence in distribution through travel agency networks.

Transat offers quality vacation travel at affordable prices to a very extensive clientele. The Corporation wants to maintain its leadership in Canada and to become a major player in the holiday travel industry in North America and Europe.

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Transfer Agent and Registrar

Computershare Trust Company
of Canada

Stock Exchange

The common shares and listed debentures of the Corporation are listed on the Toronto Stock Exchange under the ticker symbols TRZ and TRZ.DB.

Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Quarter ended July 31, 2003

This Management's discussion and analysis ("MD&A") provides a review of the performance of our Corporation and should be read in conjunction with the unaudited consolidated financial statements for the third quarter of 2003 and of 2002, the notes to the unaudited consolidated financial statements for the third quarter of 2003, and the 2002 Annual Report including the MD&A and the section on risks and uncertainties. The risks and uncertainties set out in the MD&A of the 2002 Annual Report and in our 2002 Annual Information Form filed with the Canadian securities commissions are herein incorporated by reference and remain substantially unchanged.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar figures are in Canadian dollars unless otherwise indicated. Where we say "we," "us," "our," or the "Corporation," we mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

FINANCIAL HIGHLIGHTS

Consolidated Statements of Income

Quarter ended July 31, 2003 compared with the quarter ended July 31, 2002

- Revenues decreased by $51.3 million or 10.3%;
- Margin decreased by $15.2 million or 85.7%;
- Restructuring charge of $6.6 million ($4.3 million after tax);
- Net loss of $5.8 million (excluding the after-tax restructuring charge), an $11.5 million deterioration.

Nine-month period ended July 31, 2003 compared with nine-month period ended July 31, 2002

- Revenues increased by $131.2 million or 8.4%;
- Margin increased by $0.1 million;
- Restructuring charge of $10.3 million ($6.9 million after tax);
- Net income increased by $0.9 million (excluding the after-tax restructuring charge).

Consolidated Balance Sheets

July 31, 2003 compared with October 31, 2002

- Cash and cash equivalents increased by $67.3 million.

Consolidated Statements of Cash Flows

Quarter ended July 31, 2003 compared with the quarter ended July 31, 2002

- Cash flows relating to operating activities decreased by $29.2 million or 39.4%;
- Cash flows relating to financing activities decreased by $12.9 million.

Nine-month period ended July 31, 2003 compared with nine-month period ended July 31, 2002

- Cash flows relating to operating activities decreased by $89.0 million or 44.6%;
- Cash flows related to financing activities decreased by $64.1 million or 210.0%.

RESULTS

Quarter ended July 31, 2003 compared with the quarter ended July 31, 2002 and nine-month period ended July 31, 2003 compared with nine-month period ended July 31, 2002

Revenues

For the period ended July 31 (in thousands of dollars)

	Three months				Nine months			
	2003	2002	Variance		2003	2002	Variance	
	$	$	$	%	$	$	$	%
Canada	289,628	333,196	(43,568)	(13.1)	1,265,964	1,152,304	113,660	9.9
France and other	154,493	162,181	(7,688)	(4.7)	426,055	408,546	17,509	4.3
Total	444,121	495,377	(51,256)	(10.3)	1,692,019	1,560,850	131,169	8.4

We derive our revenues from outgoing tour operators, air transportation, travel agencies and distribution, incoming tour operators, and services at travel destinations.

The overall decrease in revenues occurred mostly in Canada when we compare the current quarter with the corresponding period in 2002. This decrease was due mainly to an overall decrease in the number of travellers (a decrease of 19%). This decrease is due principally to the effects of severe acute respiratory syndrome (SARS).

When we compare the nine-month periods, almost 87% of the increase in revenues came from Canada. This was due mainly to price increases in the first two quarters of fiscal 2003 as the overall number of travellers remained relatively flat.

Operating expenses

For the period ended July 31 (in thousands of dollars)

	Three months				Nine months			
	2003	2002	Variance		2003	2002	Variance	
	$	$	$	%	$	$	$	%
Canada	283,355	313,724	(30,369)	(9.7)	1,205,212	1,094,915	110,297	10.1
France and other	158,235	163,963	(5,728)	(3.5)	439,031	418,289	20,742	5.0
Total	441,590	477,687	(36,097)	(7.6)	1,644,243	1,513,204	131,039	8.7

Our operating expenses consist mainly of direct costs, payroll, commissions, maintenance, fuel, handling costs, and aircraft rental.

As was the case with our revenues, operating expenses decreased mostly in Canada when we compare the current quarter with the corresponding period in 2002. The decrease was mainly attributable to our direct costs. When we compare the nine-month periods, over 84% of the increase in operating expenses came from Canada as well. These increases were primarily due to increases in direct costs.

Geographic segmentation

Canada

In Canada, revenues decreased due mostly to a 19% drop in the number of travellers when comparing the current quarter with the corresponding period in 2002. This decrease is attributable to effects of SARS. SARS has had a significantly negative impact at a very crucial time. On a year-to-date basis, however, revenues increased by more than 10% in the current nine-month period compared with the corresponding period in 2002 due to price increases and an overall increase in the number of travellers (2.1%). This overall increase is due to the first six months of fiscal 2003, generating an 11.6% increase in travellers compared with the corresponding period in 2002, as well as to price increases.

For the current quarter, our margins (defined as revenues less operating expenses) dropped to 2.2% compared with 5.8% in the corresponding quarter in 2002 due to our operating expenses. These expenses did not decrease in direct proportion to our revenues due to the fixed costs included in our operating expenses which do not fluctuate proportionately with our revenues. Additionally, for the nine-month period ended July 31, 2003, our margins remained relatively stable at 4.8% compared with 5.0% in 2002. This is due to the price increases realized in the first two quarters of fiscal 2003 offsetting the impact of our third quarter.

As we mentioned in our previous 2003 MD&As, we have reviewed our tour operator and distribution activities in order to identify operational efficiencies and other cost-saving opportunities, and we have completed a comprehensive review of our aircraft fleet.

These reviews led to the realization of a variety of initiatives.

On April 7, 2003, we announced the reorganization of the operations of one of our Canadian tour operators with the purpose of placing the product lines of this tour operator in a business setting that provides it with an opportunity for developing in an economically profitable way. This resulted in the termination of some 150 employees.

On May 5, 2003, we announced further staff reductions of approximately 500 employees in our airline subsidiary and from the operations of other Canadian tour operators. The slowdown in demand in the tourism industry as a whole due to the war in Iraq, continued terrorist threats, and the negative impact of SARS as well as the overcapacity in the market place led us to continue to reorganize our operations and reduce our costs. This resulted in a significant reduction of our capacity. Two of the aircraft in our fleet were not renewed in April 2003, resulting in a 10% reduction in capacity. Additionally, due mainly to the SARS crisis, we reduced another 15% of our capacity.

Additionally, we announced a two-year partnership agreement with WestJet Airlines Ltd. (“WestJet”) on August 20, 2003 to charter WestJet’s aircraft to southern vacation destinations. During the first season (November to April), the contract is worth an estimated $29.0 million. With this partnership agreement we will be able to broaden our service offerings in new markets and better serve our existing customers.

Finally, on September 11, 2003 we announced the implementation of a plan to phase out the use of our six Lockheed L-1011-500s by April 30, 2004. This plan, which originated with our commitment to review our fleet earlier in the year, was significantly affected by the events discussed above. The plan is for three of these aircraft to cease operations by October 31, 2003, another in January 2004, and the remaining two, by April 30, 2004. As a result we will add an Airbus A310 in each of the months of February, May, and June of 2004, along with an additional Airbus during fiscal 2004 as backup. This will harmonize our fleet and reduce our operating expenses since we will be left with only two types of aircraft. This plan will result in a charge of approximately $34.0 million before tax during the fourth quarter related to the aircraft being phased out as part of our restructuring charge, as well as an accelerated depreciation on the remaining Lockheed L-1011-500 aircraft being used until April 30, 2004, in the amount of approximately $6.0 million before taxes.

The result of these events is the development of a restructuring program, which will be discussed elsewhere in the MD&A.

France and other

In Europe both revenues and expenses decreased in the current quarter compared with the corresponding period in 2002. This decrease is due mostly to a drop in travellers by over 20%. The effect of SARS, the economic situation in France, and the overcapacity in the market continue to negatively affect our European operations.

For the nine-month periods ended July 31, foreign exchange had a significant impact on our operations.

In Canadian dollars, we see increases in revenues and expenses for the current nine-month period ended July 31, 2003 compared with the corresponding period in 2002.

However, in the euro currency, revenues and expenses decreased when comparing the periods resulting in negative margins in Europe. Europe witnessed a 9.6% drop in travellers in the current nine-month period compared with last year.

When comparing the overall loss in Europe for both the current quarter and nine-month period compared with 2002, the overall loss is due to Look Voyages and was partially offset by improvements in some of our other French operations such as Anyway, our online travel agency.

Our review of our tour operator activities also had an impact on our French operations. On February 10, 2003, we announced the reorganization of the management of certain French operations that we felt would enable us to better meet new challenges and seize new opportunities in France as well as improve profitability in our French operations. This reorganization led to the announcement, on May 5, 2003, of the redundancy plan (required under French law) affecting some 90 employees in France. We have completed the negotiations with regulatory authorities in France. As a result, we have accrued an amount of $4.3 million as part of our restructuring charge related to this reorganization mainly for employee termination benefits. As part of our commitment to this reorganization, we will also be investing an additional $15.0 million in our French operations. We expect to begin realizing savings as a result of the reorganization in the latter part of the fourth quarter of the current fiscal year.

On September 4, 2003, we also announced that we are having discussions with potential buyers for the sale of our online travel agency, Anyway.

Restructuring charge

In line with the objectives we set out in our 2002 Annual Report, we continue to focus our efforts on reducing our costs, working on operational efficiencies and ensuring that all of our products and services not generating desired returns are remedied. As a result, we developed a restructuring program during the second quarter of the current fiscal year. This program includes a change in the management structure and a reorganization that affects both the nature and focus of our operations in France and Canada. The war in Iraq and SARS, which contributed to a slowdown in demand, accelerated the need for a restructuring program. These events also significantly affected our fleet review, whose impact will be recorded as part of our restructuring charge during the next quarter.

We expect the total amount of our restructuring charge not to exceed $50.0 million before tax by October 31, 2003. Of this amount, approximately $34.0 million relates to the write-down of our fleet, which will be recorded in the fourth quarter.

The amount recorded for the three-month period ended July 31, 2003 totals $6.6 million, virtually all cash charges. The amount recorded for the nine-month period ended July 31, 2003 totals $10.3 million and includes cash charges totalling $9.6 million and asset write-downs in the amount of $0.8 million. The cash charges include mostly employee termination benefits and contract termination costs.

We have completed our restructuring program related to our tour operating activities in Canada and France. We expect the total program to be substantially completed in 2003 and result in savings of approximately $12.0 to $14.0 million in fiscal 2004.

The following table highlights the activity and balance of the restructuring provision for the three-month and nine-month periods ended July 31, 2003.

For the period ended July 31 (in thousands of dollars)

	Amount incurred in the current quarter $	Cumulative amount $	Cumulative drawdowns Cash $	Cumulative drawdowns Non cash $	Balance July 31, 2003 $
Employee termination benefits	6,003	8,411	4,781	—	3,630
Contract termination costs	440	959	519	—	440
Asset write-downs	46	766	—	766	—
Other	108	209	209	—	—
Total	6,597	10,345	5,509	766	4,070

Amortization

Amortization expense relates to capital assets (owned and leased) and other assets that consist mostly of long-term financing costs and development costs.

Amortization expense remained relatively stable with a 9.9% decrease for the current quarter compared with the corresponding quarter of 2002. On a year-to-date basis, amortization expense increased by $0.7 million (2.2%) due mainly to the additions of capital assets in fiscal 2002.

Interest

Interest on long-term debt, capital leases, and debentures decreased by $0.5 million (16.0%) to $2.7 million for the quarter ended July 31, 2003 from $3.2 million for the corresponding quarter of the preceding fiscal year. Additionally, during the first nine months of fiscal 2003, interest expense decreased by $1.8 million (18.9%) to $7.6 million from $9.4 million during the corresponding period of the preceding fiscal year. These decreases are due to lower total debt obligations and the favourable impact of exchange rates.

Other interest and financial expenses decreased by $0.8 million (51.0%) to $0.8 million for the quarter ended July 31, 2003 from $1.5 million for the corresponding quarter of the preceding fiscal year due to a variety of insignificant amounts. During the first nine months of fiscal 2003, this expense decreased by $1.0 million (26.8%) to $2.9 million from $3.9 million during the corresponding period of the preceding fiscal year.

Interest income increased by $1.1 million (90.0%) to $2.4 million for the quarter ended July 31, 2003, from $1.3 million for the corresponding quarter of the preceding year. Additionally, during the first nine months of fiscal 2003, interest income increased by $3.1 million (91.5%) to $6.5 million. These increases are due to higher average cash and cash equivalents balances during both the current quarter and the current nine-month period compared with the corresponding periods in 2002.

Foreign exchange on long-term monetary items

As a result of the adoption of the amendments to Handbook Section 1650, “Foreign Currency Translation,” all translation gains and losses on long-term monetary items, which were previously deferred and amortized, are now included in earnings for the year. The effect on the current quarter is a $0.2 million improvement to our results compared with a $0.5 million reduction in our results in the corresponding quarter of the preceding year. The year-to-date effect is a $3.3 million improvement to our results compared with a $1.3 million improvement in the corresponding period of the preceding year.

See *Accounting Changes* for more details.

Share of net income of companies subject to significant influence

The reduction in net income of companies subject to significant influence in the current quarter compared with the corresponding quarter in 2002 and the increase in net loss of these same companies in the current nine-month period compared with the corresponding period in 2002 is mainly due to our share in the results of our French airline company due to the reasons discussed under *“France and other”*.

Income taxes

Our income tax recovery amounted to $4.4 million for the quarter ended July 31, 2003 compared with a recovery of $0.3 million for the corresponding quarter of the preceding fiscal year. This increase is due mainly to the effect of the operating loss and restructuring charge incurred during the quarter. Excluding the *share of net income of companies subject to significant influence*, the effective tax rates were 30.0% for the quarter ended July 31, 2003, and 9.5% for the quarter ended July 31, 2002. This variance is principally due to recording nine months worth of recoveries in some of our French operations in the third quarter of 2002, thereby reducing the effective tax rate for that period considerably.

For the nine-month period ended July 31, 2003, our income taxes expense amounted to $3.6 million compared with an expense of $3.2 million in the corresponding period of 2002. Excluding the *share of net income of companies subject to significant influence*, the effective tax rates were 70.9% for the nine-month period ended July 31, 2003, and 44.0% for the corresponding period in 2002. The high rate for the current period is due to the effects of the restructuring charge. Excluding the effects the restructuring charge, the effective tax rates are comparable.

Net loss

As a result of the items discussed in our *"Results,"* our net loss was $10.1 million or $0.33 per share for the quarter ended July 31, 2003 compared with a net income of $5.7 million or $0.15 per share for the corresponding quarter of the preceding year. Excluding the after-tax effect of our restructuring charge, our net loss would have been $5.8 million or $0.20 per share. The weighted average number of common shares outstanding used to establish the per share amounts were 32,811,000 for the current quarter and 32,458,000 for the corresponding quarter of the preceding year.

Our net loss was $1.7 million or $0.13 per share for the nine-month period ended July 31, 2003, compared with a net income of $4.3 million or $0.09 per share for the corresponding period of the preceding year. Excluding the after-tax effect of our restructuring charge, our net income would have been $5.2 million or $0.08 per share. The weighted average number of common shares outstanding used to establish the per share amounts were 32,773,000 for the current period and 32,404,000 for the corresponding period of the preceding year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

For the period ended July 31 (in thousands of dollars)

	Three months			Nine months		
	2003 $	2002 $	Variance $	2003 $	2002 $	Variance $
Cash flows relating to operating activities	45,037	74,279	(29,242)	110,352	199,342	(88,990)
Cash flows relating to investing activities	(2,293)	(7,951)	5,658	(9,546)	(27,035)	17,489
Cash flows relating to financing activities	(14,087)	(1,168)	(12,919)	(33,509)	30,602	(64,111)
Net change in cash and cash equivalents	28,657	65,160	(36,503)	67,297	202,909	(135,612)

As at July 31, 2003 we had $327.4 million in cash and cash equivalents (including $83.4 million held in trust or otherwise reserved) compared with $260.1 million as at October 31, 2002 (including $101.3 million held in trust or otherwise reserved). Our balance sheet reflects a current ratio of 1.1 and working capital of $52.6 million compared with a current ratio of 1.1 and working capital of $41.8 million as at October 31, 2002. We also have access to unused lines of credit totalling $60.1 million.

Total assets increased by $4.0 million (0.5%) to $777.5 million from $773.5 million as at October 31, 2002. Shareholders' equity decreased slightly by $2.6 million to $191.1 million from $193.7 million as at October 31, 2002.

Operating activities

The $29.2 million reduction in cash flows from operations when comparing the three-month periods ended July 31 is due mostly to the decrease in the operations of the current quarter.

The $89.0 million reduction in cash flows from operations when comparing the nine-month periods ended July 31 is due mostly to a lower net change in non-cash working capital balances related to operations. This is due to a lower variance in customer deposits in the current nine-month period compared with the corresponding variance in the 2002 period. The variance was more pronounced in 2002 because the comparison was being made with October 31, 2001, the period after the events of September 11 when the amounts of customer deposits were extremely low.

Investing activities

Cash flows used in investing activities were $5.7 million less in the current quarter compared with the corresponding quarter in 2002 due mostly to less capital asset acquisitions.

Cash flows used in investing activities were $17.5 million less in the current nine-month period compared with the corresponding period in 2002 due to less addition to capital assets and lower investments in other assets.

Financing activities

Cash flows used in financing activities were $12.9 million more in the current quarter compared with the corresponding quarter in 2002 due mostly to larger repayments of other long-term debt and obligations under capital leases as well as our bank loans.

Cash flows used in financing activities were $64.1 million more in the current nine-month period compared with the corresponding period in 2002 due mainly to the $51.1 million issue of the convertible debentures in February 2002 and the $21.9 million issue of debentures in January 2002. In the current fiscal year there were mainly repayments of our other long-term debt, obligations under capital leases and our bank loans.

We believe that we will be able to meet our anticipated cash requirements with our current funds, internally generated funds from operations, as well as through borrowings under existing credit facilities.

On February 28, we announced the renewal of our revolving credit facility, which matured February 2003. The renewed revolving credit facility is for $90.0 million to come due August 2004.

ACCOUNTING CHANGES

During the first nine months of fiscal 2003, we adopted the Canadian Institute of Chartered Accountants (CICA) amendments to Handbook Section 1650, “Foreign Currency Translation,” new Handbook Sections 3870, “Stock-Based Compensation and Other Stock-Based Payments,” 3063 “Impairment of Long-Lived Assets,” and 3475 “Disposal of Long-Lived Assets and Discontinued Operations,” and the new CICA Accounting Guideline 14 (AcG-14), “Disclosure of Guarantees.”

Effective November 1, 2002, the standards in Section 1650 require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies be included in earnings for the year, including gains and losses on long-term monetary assets and liabilities, such as long-term debt and obligations under capital leases, which were previously deferred and amortized on a straight-line basis over the remaining lives of the related items. These amendments were applied retroactively with restatements of prior periods. As a result we recorded a cumulative charge to opening retained earnings in the amount of $1.6 million to write off the unamortized foreign exchange loss on long-term monetary items. This charge is non-cash in nature and does not affect our cash or liquidity position.

The new Handbook Section 3870 is also effective for the fiscal year beginning November 1, 2002. Under this new standard, the CICA recommends, however does not require, the fair value-based method of accounting for stock options granted to employees but permits to disclose in a note to the financial statements the pro forma values of net income and earnings per share obtained by calculating the cost of the stock-based compensation in accordance with the fair value-based accounting method. The recommendations of the Section apply to awards granted on or after the date of adoption. We have chosen to present by note to the financial statements the impact of the application of the fair value based method to disclose the pro forma net income and the pro forma earnings per share as if we applied the fair value method. Consequently, the adoption of this standard will not have any effect on our results, financial position, or cash flows.

The new Handbook Section 3063 was adopted effective May 1, 2003. This section provides guidance on recognizing, measuring, and disclosing the impairment of long-lived assets. The standards require the recognition of an impairment loss for a long-lived asset when events or changes in circumstances indicate that the carrying value may not be recoverable and exceeds its fair value. The impairment loss is calculated by deducting the fair value of the asset from its carrying value. The adoption of this section will have an impact during the next quarter due to the announcement of our plan to phase out the use of a portion of our aircraft fleet discussed elsewhere in our MD&A.

The new Handbook Section 3475 is effective May 1, 2003. The new standard applies to disposal activities initiated by an enterprise's commitment to a plan on or after the date of adoption. These new recommendations establish standards for the recognition, measurement, presentation, and disclosure of the disposal of long-lived assets held for disposal by sale or other than by sale. The section in particular specifies the criteria that must be met for a long-lived asset to be classified as held for sale and specifies that such an asset is measured at the lower of its carrying amount or fair value less cost to sell. The new recommendations also establish standards for the presentation and disclosure of discontinued operations. The adoption of this section will not have any effect on our results, financial position or cash flows.

AcG-14 is effective for the second quarter beginning February 1, 2003. The guideline requires a guarantor to disclose significant information about guarantees it has provided without regard to whether it will have to make any payments under the guarantees. The purpose of the AcG is to improve the transparency of a guarantor's disclosures about the obligations and risks arising from issuing guarantees. The adoption of this guideline will not have any effect on our results, financial position or cash flows.

OUTLOOK

We began the year by predicting that 2003 would be a very challenging year and by setting ourselves various objectives.

During the current quarter, we experienced the negative impact of SARS and we expect to experience its lingering effects into the fourth quarter as well since the bookings for the entire summer season have been negatively impacted by SARS.

In France, the economic situation is beginning to show positive signs. However, we expect Look to continue to incur losses in the fourth quarter.

We do however see positive signs in 2004. We expect to have a strong winter season. The announcement of our partnership with WestJet will add to an already strong winter season and the phase-out of a portion of our aircraft fleet will result in cost savings that will be realized throughout the 2004 fiscal year.

The remainder of our restructuring program will also result in additional savings.

Although we expect our fourth quarter results to be below the fourth quarter of 2002 we feel that we have set the stage for our initiatives to deliver the cost reductions, operational efficiencies and profitable products and services we committed to delivering at the beginning of the current fiscal year.

FORWARD-LOOKING STATEMENTS

This MD&A also contains certain forward-looking statements with respect to our Corporation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. The information contained herein is dated as at September 10, 2003.

Consolidated balance sheets

(in thousands of dollars) (Unaudited)

	As at July 31, 2003 **$**	As at October 31, 2002 [Restated – note 2] $
ASSETS		
Current assets		
Cash and cash equivalents *[note 3]*	327,420	260,123
Accounts receivable	82,525	101,613
Income taxes recoverable	4,199	15,139
Future income tax assets	2,297	1,352
Inventories	8,793	10,124
Prepaid expenses	37,161	48,389
Current portion of deposits and engine and airframe overhaul expenses	22,358	33,850
Total current assets	484,753	470,590
Deposits and engine and airframe overhaul expenses	17,929	17,707
Future income tax assets	29,926	18,028
Capital assets	153,178	169,316
Goodwill	70,317	69,935
Other assets	21,402	27,892
	777,505	773,468
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans	8,727	18,618
Accounts payable and accrued liabilities	273,414	249,852
Customer deposits and deferred income	124,823	136,078
Current portion of long-term debt and obligations under capital leases	25,232	24,257
Total current liabilities	432,196	428,805
Long-term debt	10,115	21,455
Obligations under capital leases	18,774	36,990
Debentures	29,791	29,226
Provision for engine and airframe overhaul in excess of deposits	52,230	35,614
Non-controlling interest and other liabilities	17,423	15,925
Future income tax liabilities	25,850	11,710
	586,379	579,725
Shareholders' equity		
Share capital *[note 5]*	111,248	110,200
Convertible debentures and equity component of a debenture	52,838	52,786
Retained earnings	24,525	28,636
Warrants	4,122	4,122
Deferred translation adjustments	(1,607)	(2,001)
	191,126	193,743
	777,505	773,468

See accompanying notes to consolidated interim financial statements.

Consolidated statements of income

(in thousands of dollars, except per share amounts) (Unaudited)

	Three (3) months ended July 31		Nine (9) months ended July 31,	
	2003	2002 [Restated – note 2]	**2003**	2002 [Restated – note 2]
	$	$	**$**	$
Revenues	444,121	495,377	1,692,019	1,560,850
Operating expenses	441,590	477,687	1,644,243	1,513,204
	2,531	17,690	47,776	47,646
Amortization	9,634	10,687	31,122	30,455
Restructuring charge *[note 4]*	6,597	—	10,345	—
Interest on long-term debt, obligations under capital leases and debentures	2,721	3,239	7,592	9,366
Other interest and financial expenses	756	1,543	2,860	3,907
Interest income	(2,395)	(1,260)	(6,507)	(3,398)
Foreign exchange on long-term monetary items	114	(72)	(2,681)	(49)
Share of net loss (income) of companies subject to significant influence	(649)	(2,085)	2,902	27
	16,778	12,052	45,633	40,308
Income (loss) before the following items	(14,247)	5,638	2,143	7,338
Income taxes				
Current	856	2,180	674	2,891
Future	(5,258)	(2,517)	2,905	348
	(4,402)	(337)	3,579	3,239
Income (loss) before non-controlling interest in subsidiaries' results	(9,845)	5,975	(1,436)	4,099
Non-controlling interest in subsidiaries' results	(243)	(233)	(250)	186
Net income (loss) for the period	(10,088)	5,742	(1,686)	4,285
Earnings (loss) per share				
Earnings (loss) per share	(0.33)	0.15	(0.13)	0.09
Diluted earnings (loss) per share	(0.33)	0.15	(0.13)	0.09

Consolidated statements of retained earnings

(in thousands of dollars) (Unaudited)

	Nine (9) months ended July 31,	
	2003	2002 [Restated – note 2]
	$	$
Retained earnings, beginning of period as previously shown	30,243	25,879
Change in an accounting policy *[note 2]*	(1,607)	(3,644)
Restated retained earnings, beginning of period	28,636	22,235
Net income (loss) for the period	(1,686)	4,285
Convertible debentures issue expenses, net of related future income taxes of $703	—	(1,280)
Interest on equity component of debentures – net of related income taxes of $1 066 ($739 in 2002)	(2,425)	(1,371)
Retained earnings, end of period	24,525	23,869

See accompanying notes to consolidated interim financial statements.

Consolidated statements of cash flows

(in thousands of dollars) (Unaudited)

	Three (3) months ended July 31 **2003** $	2002 [Restated – note 2] $	Nine (9) months ended July 31, **2003** $	2002 [Restated – note 2] $
OPERATING ACTIVITIES				
Net income (loss) for the period	(10,088)	5,742	(1,686)	4,285
Items not involving an outlay (receipt) of cash				
Amortization	9,634	10,687	31,122	30,455
Foreign exchange on long term monetary items	114	(72)	(2,681)	(49)
Restructuring charge *[note 4]*	46	—	766	—
Share of net loss (income) of companies subject to significant influence	(649)	(2,085)	2,902	27
Future income taxes	(5,258)	(2,517)	2,905	348
Non-controlling interest in subsidiaries' results	243	233	250	(186)
Interest on debentures	205	208	613	456
Operating cash flow	(5,753)	12,196	34,191	35,336
Net change in non-cash working capital balances related to operations	47,527	51,217	57,800	137,525
Net change in deposits, expenses and provision for engine and airframe overhaul	3,263	10,866	18,361	26,481
Cash flows relating to operating activities	45,037	74,279	110,352	199,342
INVESTING ACTIVITIES				
Additions to capital assets	(2,141)	(5,632)	(11,801)	(21,500)
Other assets	(449)	(1,059)	(130)	(4,684)
Repayment of deposits	130	50	3,095	3,548
Increase in deposits	—	(1,310)	(877)	(4,692)
Dividends from companies subject to significant influence	167	—	167	293
Cash flows relating to investing activities	(2,293)	(7,951)	(9,546)	(27,035)
FINANCING ACTIVITIES				
Bank loans	(2,317)	3,853	(10,277)	11,634
Repayment of other long-term debt and obligations under capital leases	(11,770)	(4,745)	(23,683)	(17,067)
Other liabilities	—	3,392	2,007	3,104
Proceeds from issue of common shares	—	15	744	800
Interest on convertible debentures	—	—	(2,300)	—
Long-term debt – revolving term loan	—	(3,861)	—	(41,061)
Proceeds from issue of debentures, net of issue expenses	—	—	—	70,987
Increase in other long-term debt	—	178	—	2,205
Cash flows relating to financing activities	(14,087)	(1,168)	(33,509)	30,602
Net change in cash and cash equivalents for the period	28,657	65,160	67,297	202,909
Cash and cash equivalents, beginning of period	298,763	222,368	260,123	84,619
Cash and cash equivalents, end of period	327,420	287,528	327,420	287,528

See accompanying notes to consolidated interim financial statements.

[The amounts in the tables are expressed in thousands, except for options and amounts per option or per share]
[Unaudited]

Note 1 Basis of Presentation

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the change in accounting policies described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are cyclical in nature, consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's Annual Report for fiscal 2002.

Note 2 Changes in Accounting Policies

Foreign Currency Translation

On November 1, 2002, the Corporation adopted retroactively the amended Canadian Institute of Chartered Accountants Handbook ("CICA"), Section 1650, "Foreign Currency Translation." The standards require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies, including gains and losses on long-term monetary assets and liabilities, such as long-term debt and obligations under capital leases, previously deferred and amortized on a straight-line basis over the remaining lives of the related items, be included in earnings for the year. As a result of the adoption of these amendments on November 1, 2001, deferred foreign exchange losses in the amount of $3,644,000 [$1,607,000 as at October 31, 2002] included in other assets, were written off and charged to retained earnings. The effect of the adoption of the amendments was a reduction in net income and earnings per share of $563,000 and $0.02 respectively for the three-month period ended July 31, 2002, an increase in net income and earnings per share of $1,281,000 and $0.04 respectively for the nine-month period ended as at the same date, and an increase in net income and earnings per share of $2,037,000 and $0.06 respectively for the year ended October 31, 2002. The adoption of these amendments resulted in a reduction in net loss and loss per share of $242,000 and $0.01 respectively for the three-month period ended July 31, 2003, and a reduction in net loss and in loss per share of $3,284,000 and $0.10 for the nine-month period ended the same date.

Stock-Based Compensation and Other Stock-Based Payments

On November 1, 2002, the Corporation adopted prospectively the new accounting standard, Section 3870 "Stock-Based Compensation and Other Stock-Based Payments." Under this new standard, the CICA recommends, however does not require, the fair value-based method of accounting for stock options granted to employees, but permits the disclosure in a note to the financial statements of the pro forma values of net income and earnings per share obtained by calculating the cost of the stock-based compensation in accordance with the fair value-based method. The recommendations of the section apply to awards granted on or after the date of adoption. The Corporation has chosen to present, by a note to the consolidated financial statements, the impact of the application of the fair value-based method to disclose the pro forma net earnings and the pro forma earnings per share as if the Corporation applied the fair value method for awards granted on or after the date of adoption. Consequently, the adoption by the Corporation of this standard will not have any effect on its results, financial position, or cash flows.

Note 2 Changes in Accounting Policies (Cont'd)

Disposal of Long-Lived Assets and Discontinued Operations

On May 1, 2003, the Corporation adopted the new accounting standard, Section 3870 "Disposal of Long-Lived Assets and Discontinued Operations." The new standard applies to disposal activities initiated by an enterprise's commitment to a plan on or after the date of adoption. These new recommendations establish standards for the recognition, measurement, presentation, and disclosure of the disposal of long-lived assets held for disposal by sale or other than by sale. The section in particular specifies the criteria that must be met for a long-lived asset to be classified as held for sale and specifies that such an asset is measured at the lower of its carrying amount or fair value less cost to sell. The new recommendations also establish standards for the presentation and disclosure of discontinued operations. The adoption of these standards had no impact on the consolidated interim financial statements of the Corporation.

Impairment of Long-Lived Assets

In addition, on May 1, 2003, the Corporation early adopted the new standards in the CICA Handbook Section 3063 "Impairment of Long-Lived Assets." The section establishes standards for recognition, measurement and disclosure of the impairment of long-lived assets. It requires recognition of an impairment loss when the carrying value of a long-lived asset is not recoverable and exceeds its fair value. The section specifies that the impairment loss is measured as the amount by which the long-lived asset's carrying value exceeds its fair value. The adoption of these standards had no impact on the consolidated interim financial statements of the Corporation but will have an impact during the next quarter *[see note 8]*.

Disclosure of Guarantees

Effective February 1, 2003, the Corporation adopted the CICA Accounting Guideline 14 (AcG-14) "Disclosure of guarantees." The guideline requires a guarantor to disclose significant information about guarantees it has provided without regard to whether it will have to make any payments under the guarantees. The purpose of this guideline is to improve the transparency of a guarantor's disclosures about the obligations and risks arising from issuing guarantees.

Please see note 7 for more information regarding the disclosure pursuant to the new accounting guideline.

Future accounting policies

Consolidation of variable interest entities

In June 2003, the CICA published Accounting Guideline 15 (AcG-15) "Consolidation of variable interest entities." This new guideline presents clarification on the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Therefore, AcG-15 provides guidance for determining when an enterprise includes the assets, the liabilities and results of activities of a variable interest entity in its consolidated financial statements. As a general principal set out in AcG-15, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest or combination of variable interest, that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both (the "primary beneficiary"). The Corporation has conducted certain aircraft financing transactions whereby it guaranteed a portion of the residual value at the end of the lease term under structures involving special purpose entities. It is currently assessing whether or not these structures are variable interest entities and, further, whether or not the Corporation would be identified as the primary beneficiary. For the Corporation, this guideline will come into effect on February 1, 2004.

Note 3 Cash and cash equivalents

	As at July 31, 2003 $	As at October 31, 2002 $
Cash and cash equivalents	244,031	158,823
Cash in trust or otherwise reserved	83,389	101,300
	327,420	260,123

Cash in trust or otherwise reserved represents funds received from customers for services not yet rendered.

Note 4 Restructuring charge

As part of the Corporation's ongoing efforts to focus on reducing costs, working on operational efficiencies and ensuring that all of its products and services not generating desired returns are remedied, the Corporation developed a restructuring program. This program includes a change in the management structure and a reorganization that affects both the nature and focus of its operations in France and Canada. The war in Iraq and SARS, which contributed to a slowdown in demand, accelerated the need for a restructuring program.

The Corporation expects the total amount of its restructuring cost not to exceed $50 million by October 31, 2003. Of this amount, $34 million relates to write-down of its fleet, which will be recorded in the fourth quarter *[see note 8]*. For the quarter, $6,597,000 was recorded. The Corporation expects to record additional restructuring charges related to its restructuring program in the next quarter.

The amount recorded for the nine-month period ended July 31, 2003 includes cash charges totalling $9,579,000 and asset write-downs in the amount of $766,000. The cash charges include mostly employee termination benefits and contract termination costs.

The restructuring program is expected to be substantially completed in 2003.

The following table highlights the activity and balance of the restructuring provision for the three-month and nine-month periods ended July 31, 2003.

	Amount incurred in the three-month period ended July 31, 2003 $	Amount incurred in the nine-month period ended July 31, 2003 $	Cumulative drawdowns Cash $	 Non-cash $	Balance July 31, 2003 $
Employee termination benefits	6,003	8,411	4,781	—	3,630
Contract termination costs	440	959	519	—	440
Asset write-downs	46	766	—	766	—
Other	108	209	209	—	—
	6,597	10,345	5,509	766	4,070

Note 5 Share Capital

a) Share capital

During the nine-month period ended July 31, 2003, the 51,671 preferred shares, series 3, held by Transat Tours Canada Inc. ("Transat Tours") were converted into 155,013 common shares of the Corporation. Subsequent to the conversion, the number of common shares held by Transat Tours and excluded from the share capital of the Corporation totalled 258,207. During the same period, all of the common shares held by Transat Tours were sold on the market and immediately reintegrated into the share capital of the Corporation at their original issue price, namely $301,000. The transaction had no impact on the results of the Corporation.

b) Options

Options issued and outstanding

	Number of options	Weighted average price ($)
Balance as at October 31, 2002	2,120,690	7.91
Granted	629,473	3.84
Expired	45,000	12.55
Cancelled	179,685	7.95
Balance as at July 31, 2003	2,525,478	6.81
Exercisable options as at July 31, 2003	1,610,153	7.17

During the quarter ended July 31, 2003, the Corporation granted 619,473 stock options to certain key employees, and to its directors. During the nine-month period ended July 31, 2003, 629,473 stock options were granted. The average fair value of each option granted was estimated to the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant for the three- and nine-month periods ended July 31, 2003 are as follows:

	Three (3) months ended July 31, 2003	Nine (9) months ended July 31, 2003
Risk-free interest	4.73%	4.73%
Expected life	6 years	6 years
Expected volatility	55%	55%
Dividend yield	0%	0%
Weighted-average grant-date fair value	$2.08	$2.09

The following table presents the effect on the financial statements of the Corporation if awards granted had been recorded using the fair value-based method:

	Three (3) months ended July 31, 2003	Nine (9) months ended July 31, 2003
Net loss	10,088	1,686
Adjustment – Stock-based compensation	72	76
Por forma net loss	10,160	1,762
Pro forma loss per share	0.34	0.13
Pro forma diluted loss per share	0.34	0.13

Note 5 Share Capital (Cont'd)

c) Earnings per share

Earnings (loss) per share and the fully diluted earnings (loss) per share for the three-month and nine-month periods ended July 31, 2003 and 2002 were computed as follows:

	Three (3) months ended July 31 2003 $	Three (3) months ended July 31 2002 $	Nine (9) months ended July 31 2003 $	Nine (9) months ended July 31 2002 $
Numerator				
Net income (loss)	(10,088)	5,742	(1,686)	4,285
Interest on convertible debentures	(868)	(753)	(2,425)	(1,330)
Income (loss) available to common shareholders	(10,956)	4,989	(4,111)	2,955
Interest on convertible debentures	—	753	—	—
Interest on debentures that may be settled in common shares	—	23	—	83
Adjusted income (loss) used in computing diluted earnings (loss) per share	(10,956)	5,765	(4,111)	3,038
Denominator				
Weighted average number of outstanding shares	32,811	32,458	32,773	32,404
Convertible debentures	—	5,841	—	—
Debentures that may be settled in common shares	—	344	—	345
Stock options	—	62	—	60
Warrants	—	100	—	40
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	32,811	38,805	32,773	32,849
Earnings (loss) per share	(0.33)	0.15	(0.13)	0.09
Diluted earnings (loss) per share	(0.33)	0.15	(0.13)	0.09

Convertible debentures, debentures that may be settled in common shares, and warrants were excluded from the computation of diluted loss per share for the three-month period and the nine-month period ended July 31, 2003 as a result of their antidilutive effect. The potential impact on the denominator of these securities for the quarter ended July 31, 2003, is 7,846,413 shares, and 7,753,897 shares for the nine-month period ended the same date. Given the loss recorded for the quarter and for the nine-month period ended July 31, 2003, the 2,525,478 common stock options outstanding were excluded from the computation as a result of their antidilutive effect.

Convertible debentures were excluded from the computation of diluted earnings per share for the nine-month period ended July 31, 2002 as a result of their antidilutive effect. The potential impact on the denominator of these securities is 3,465,834 shares. In addition, in computing diluted earnings per share for the third quarter and for the nine-month period ended July 31, 2003, 1,001,795 common stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the respective periods.

Note 6 Segmented information

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the consolidated statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in Canada and in Europe.

	Three (3) months ended July 31, 2003			Nine (9) months ended July 31, 2003		
	Canada $	France and other $	Total $	Canada $	France and other $	Total $
Revenues	289,628	154,493	444,121	1,265,964	426,055	1,692,019
Operating expenses	283,355	158,235	441,590	1,205,212	439,031	1,644,243
	6,273	(3,742)	2,531	60,752	(12,976)	47,776
Amortization	8,226	1,408	9,634	26,223	4,899	31,122
Additions to capital assets	630	1,511	2,141	7,370	4,431	11,801
Capital assets and goodwill [1]				179,865	50,773	230,638

	Three (3) months ended July 31, 2002			Nine (9) months ended July 31, 2002		
	Canada $	France and other $	Total $	Canada $	France and other $	Total $
Revenues	333,196	162,181	495,377	1,152,304	408,546	1,560,850
Operating expenses	313,724	163,963	477,687	1,094,915	418,289	1,513,204
	19,472	(1,782)	17,690	57,389	(9,743)	47,646
Amortization	9,672	1,015	10,687	26,973	3,482	30,455
Additions to capital assets	4,301	1,331	5,632	18,139	3,361	21,500
Capital assets and goodwill [2]				189,930	49,321	239,251

[1] As at July 31, 2003.
[2] As at October 31, 2002.

Note 7 Guarantees

In the normal course of business, the Corporation has entered into agreements that contain features which meet the definition of a guarantee under AcG-14. These agreements provide for indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit, and security contracts.

These agreements may require the Corporation to compensate the counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 8, 9 ,10, 11, 13, 15 and 20 to the 2002 audited financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates until 2028. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance protecting them for the obligations undertaken.

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $24,924,000 as at July 31, 2003. Historically, the Corporation has not made any significant payments under such letters of credit.

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $1,860,000 as at July 31, 2003. Historically, the Corporation has not made any significant payments under such agreements.

As at July 31, 2003, no amounts have been accrued with respect to the above-mentioned agreements.

Note 8 Subsequent event

On September 11, 2003, the Corporation announced the implementation of a plan to phase out the use of its six Lockheed L-1011-500s by April 30, 2004. The plan is for three of these aircraft to cease operations by October 31, 2003, another in January 2004, and the remaining two, by April 30, 2004. This plan will result in a charge of approximately $34.0 million before tax related to the aircraft being phased out during the fourth quarter as part of the Corporation's restructuring charge, as well as an accelerated depreciation on the remaining Lockheed L-1011-500 aircraft being used until April 30, 2004, in the amount of approximately $6.0 million before taxes.